Galibier Capital Management Ltd.

# Quarterly Investment Review

## Q3 2020

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***"I might be great tomorrow, but hopeless yesterday"***

***The Pretenders - Don't Ge Me Wrong***

If nothing else, at the end of each day we can all take comfort that we are one day closer to the end of the COVID-19 outbreak. Promising developments in therapeutics and, even more importantly, vaccines are emerging. As well, people are generally conforming to spread minimization strategies such as mask wearing and hand washing. In the next 12 to 18 months, we are hopeful for widespread containment of the pandemic as a result of all the paths being pursued.

Despite the increasing likelihood of the disease being ultimately controlled, the impact of the lockdown coupled with payroll support and monetary and fiscal stimulus may lead to a prolonged period of uncertain economic conditions. In economics, as in physics, every action triggers a reaction, however unlike physics, the economic reactions are difficult to predict. We observed that money supply has ballooned, government debt has increased and employment and economic output (as measured by GDP) has been reduced. The uncertainly about the upcoming U.S. election as well as political and social developments around the world are adding to economic uncertainty.

Against this backdrop, the capital markets have shown remarkable resilience. The S&P/TSX Composite Total Return Index was up +4.7% in the quarter and the MSCI World Index was up +5.8%.

During the third quarter, business was strong at Galibier.  We were fortunate to gain commitments from three new institutional clients which will lead to a more than 25% increase in assets under management over Q2 levels. While senior management is in the office most of the time, the majority of employees continue to work from home and productivity has remained strong. Our investment philosophy and process continues to be relentlessly applied by our seasoned investment team.


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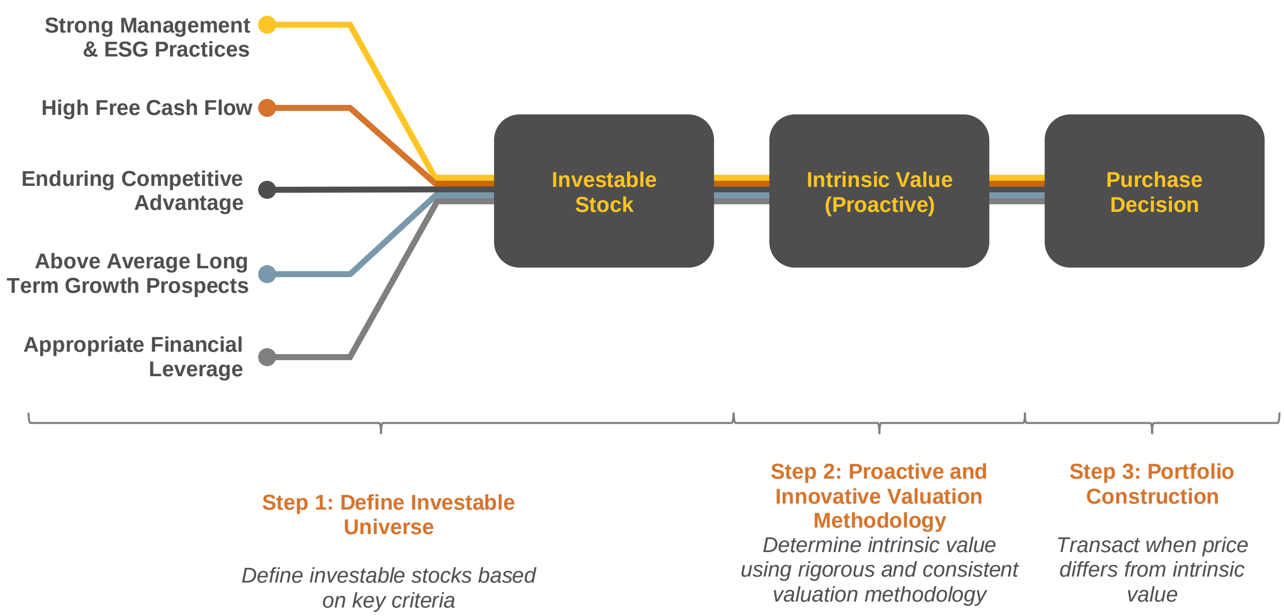
## Galibier Capital Management Ltd.

At Galibier we work hard to (1) derive a measure of intrinsic value for a universe of investable stocks and (2) transact when market prices offer opportunities. To paraphrase Warren Buffett "Price is what you pay. [Intrinsic] Value is what you get." Thus, while we welcome price to earnings multiple expansions, what really drives increases in the future value of companies is higher future earnings. Our investment process seeks to identify and value future earnings power and balance sheet structure using reasonable expectations about future economic conditions and high discount rates.

### Galibier Investment Philosophy and Process – *The Galibier Way*

*Galibier follows a proactive and innovative* ***valuation*** *methodology*




## We Believe

- Companies have an intrinsic value that can be calculated
- Market prices do not always reflect intrinsic value
- Growth is a component of value
- Concentration is essential for generating alpha
- At some price, almost all stocks offer a value proposition
- Risk is the permanent loss of capital, not benchmark underperformance
- Investment companies should be independent and investor led
- The success of investment companies should be measured by the success of its clients
- An essential element towards investment success is to have a contrarian mindset… i.e. to be sanguine when others are discouraged and to be cautious when others are exuberant….

## Galibier Canadian Equity Pool Summary of Results

| Period ending: Sept 30/2020 | Since Sep27/12 (%) | 8 Year (%) | 7 Year (%) | 6 Year (%) | 5 Year (%) | 4 Year (%) | 3 Year (%) | 2 Year (%) | 1 Year (%) | Year-to-date (%) | Quarter-to-date (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Galibier Canadian Equity Pool** | **9.5** | **9.5** | **8.5** | **5.6** | **8.1** | **6.4** | **5.1** | **0.8** | **0.0** | **-6.2** | **11.6** |
| S&P/TSX Composite (total return) | 6.6 | 6.6 | 6.5 | 4.4 | 7.2 | 5.5 | 4.3 | 3.5 | 0.0 | -3.1 | 4.7 |

Notes:

i. *Return figures are gross of fees.*
ii. *Return figures are annualized for periods greater than 1 year.*
iii. *The Funds' returns are not guaranteed, the values change frequently and past performance may not be repeated.*
iv. *Inception date of the fund is September 27, 2012.*
v. *Returns are presented only for periods during which Galibier has been registered as a portfolio manager.*
vi. *The investment objectives of the Galibier Canadian Equity Pool have not changed since the Funds' inception.*
vii. *All returns of the Galibier Canadian Equity Pool prior to June 6, 2013 are related to Galibier's proprietary accounts, as Galibier's employees were the sole investors in the Funds during this period of time. Canadian securities administrators have expressed concerns regarding marketing returns for proprietary accounts as firms can employ different strategies and take greater risks when managing its own investments without a fiduciary duty to third party investors.*
viii. *Performance presentation consistent with recommendations from FCLTGlobal "Institutional Investment Mandates: Anchors for Long-term Performance" www.fcltglobal.org*

*Source: Galibier Capital Management Ltd, Bloomberg.*
*See Note 1 and Disclaimer at the end of this document for information about the returns and benchmarks.*

## Galibier Canadian Equity Pool

In Q3 2020, the Galibier Canadian Equity Pool generated a return of +11.6%. Since inception on September 27, 2012, the Canadian Pool's annualized return has been +9.5% per year which was ahead of the +6.6% annual return of the index. At the end of the quarter, the active share[3] of the portfolio was 81%.

**Canadian Equity Pool Top Holdings (Sept 30/2020)**

| | | Weight (%) |
|---|---|---|
| 1. | Northland Power Inc. | 6.0 |
| 2. | Cargojet Inc. | 5.3 |
| 3. | Nutrien Ltd. | 4.7 |
| 4. | CCL Industries Inc. | 4.6 |
| 5. | Park Lawn Corp. | 4.5 |
| 6. | Spin Master Corp. | 4.5 |
| 7. | Manulife Financial Corp. | 4.4 |
| 8. | Restaurant Brands International Inc. | 4.3 |
| 9. | Canadian Imperial Bank of Commerce | 4.3 |
| 10. | Kirkland Lake Gold Ltd. | 4.2 |
| **Total** | | **46.8** |

### Best performers during the quarter[2]

#### West Fraser Timber up +31%

West Fraser (WFT) performed well over the quarter. As one of the world's largest producers of lumber, WFT benefitted from the sharp 40% increase in lumber price over the past three months. This increase was driven by both demand factors (low interest rates spurring demand for housing starts and renovations) and supply factors due to significant curtailment in supply in the first and second quarter by lumber producers. We took advantage of the strong price action in WFT and opportunistically trimmed our position somewhat in the quarter.

#### Intertape Polymer up +26%

Intertape's operations were deemed "essential" during the closure of the economy earlier this year. During this period the company performed well and was able to increase its margins despite revenue being down in the quarter. Revenue trends have improved since the lockdown with June being flat with 2019 levels after declining 20% earlier in the quarter. The company's exposure to the booming e-commerce industry (~20% of revenue) has helped offset weaker industrial segments. The company's dividend is well supported by cash flow and the stock currently yields a healthy 5.2%

#### Gildan Activewear up +25%

Shares of Gildan (GIL) continued to recover from its steep selloff in the first quarter. This parallels continued improvement in its business since the pandemic closed down many of its retail customers as well as Gildan's operations in Honduras. Production is back to 75% of capacity and with its low cost position in the industry, GIL has been able to increase its share of the smaller market. Gildan would further benefit from a vaccine as this would help demand in its print wear segment since about 30% of this segment comes from tourism and large gathering events such as concerts.

### PARK LAWN UP +23%

Park Lawn's (PLC) business has proven to be resilient during the past several months. PLC's cemeteries and funeral homes are essential service providers in its local communities and have been working as final responders throughout the pandemic. The management team has also commented that they find major events like these often act as a trigger, causing people to take action to put together their final plans, purchase cemetery plots and pre-book funerals, which has been a benefit to Park Lawn's business. We see continued opportunity for management to consolidate smaller death care competitors, which has been a successful strategy for Park Lawn in the past.

## Worst performers during the quarter[2]

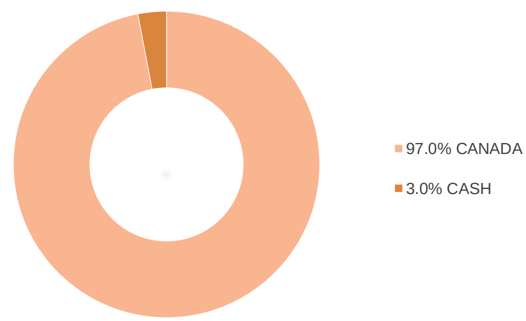
### ENBRIDGE DOWN -4%

Enbridge continues to be impacted by political uncertainty around two of its assets, Line 3 and Line 5. Line 3 in Minnesota requires one additional permit, which should come in the middle of November allowing the pipeline expansion to be in service in 2021. Rerouting Line 5 in Michigan is a longer term project and is scheduled to be in service by 2025. With its substantial experience in this process, Enbridge continues to navigate the project through the regulatory hurdles. Regardless, Enbridge's infrastructure remains the best way for oil producers to move their product to market, the gas distribution assets are critical to its clients and the company has a growing portfolio of renewable energy production. The stock remains attractive with a dividend yield of 8.5% which is well supported by cash flows plus future growth in profits.

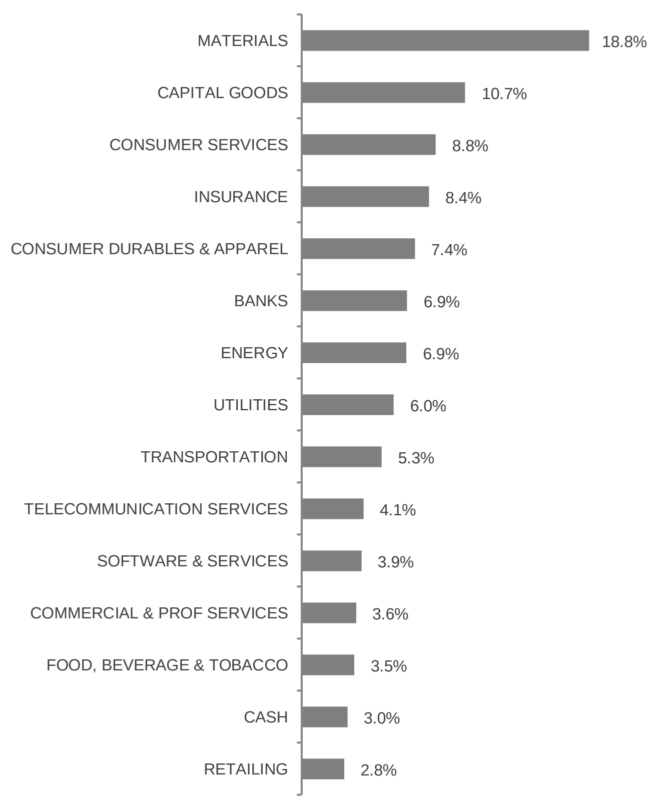
### ROGERS COMMUNICATIONS DOWN -2%

Rogers's (RCI) shares underperformed in the quarter as concerns around recent promotional activity in the wireless industry have pressured near term expectations. Rogers is also currently bidding to take over the Canadian assets of Montreal based rival Cogeco, which has increased uncertainty near term. A takeover of Cogeco would help to unlock shareholder value. Rogers already owns 30% of the company and if the deal proceeds there will be significant synergies as RCI integrates Cogeco's Canadian operations. If the deal is blocked by the controlling shareholders, then it's likely that Rogers will sell its current stake (worth $3/share) and redeploy the proceeds in a more productive way for shareholders.

**Canadian Equity Pool Geographic Split (Sept 30/2020)**




**Canadian Equity Pool Industry Split (Sept 30/2020)**



**Buys & Sells**

During the quarter, we added to numerous positions including Restaurant Brands International, Kirkland Lake Gold, Rogers Communications, Nutrien and Canadian Tire among others.

Excluding flow driven trades, we reduced our positions in West Fraser Timber, Intertape Polymer Group, Cargojet, Northland Power and Spin Master.

As a result of these transactions, the cash position increased to 3.0% from 2.0% at the end of the prior quarter.

**Canadian Equity Pool Dynamics (Sept 30/2020)**

| Measure | **Canadian Pool** | S&P/TSX Comp |
|---|---|---|
| Fwd 12M P/E | 20.4x | 17.6x |
| Dividend Yield | 2.8% | 3.2% |
| Number of Names | 25 | 223 |
| Active Share[3] | 81% | - |

Source: *Galibier Capital Management Ltd, Bloomberg*

## Galibier Global Equity Pool Summary of Results

| Period ending: Sept 30/2020 | Since May12/17 (%) | 3 year (%) | 2 year (%) | 1 year (%) | Year-to-date (%) | Quarter-to-date (%) |
|---|---|---|---|---|---|---|
| **Galibier Global Equity Pool** | **6.8** | **8.8** | **6.7** | **2.2** | **-5.2** | **3.9** |
| MSCI World (CAD, total return) | 8.0 | 10.1 | 7.8 | 11.4 | 4.8 | 5.8 |

Notes:

i. *Return figures are gross of fees.*
ii. *Return figures are annualized for periods greater than 1 year.*
iii. *The Funds' returns are not guaranteed, the values change frequently and past performance may not be repeated.*
iv. *Inception date of the fund is May 12, 2017.*
v. *The investment objectives of the Galibier Global Equity Pool have not changed since the Funds' inception.*
vi. *Returns are presented only for periods during which Galibier has been registered as a portfolio manager.*
vii. *Performance presentation consistent with recommendations from FCLTGlobal "Institutional Investment Mandates: Anchors for Long-term Performance" www.fcltglobal.org*

*Source: Galibier Capital Management Ltd, Bloomberg.*
*See Note 1 and Disclaimer at the end of this document for information about the returns and benchmarks.*

## Galibier Global Equity Pool

In Q3 2020, the Galibier Global Equity Pool generated a return of +3.9%. Since inception on May 12, 2017, the Global Pool's annualized return has been +6.8% per year. At the end of the quarter, the active share[3] of the portfolio was 93%.

**Global Equity Pool Top Holdings (Sept 30/2020)**

| | | Weight (%) |
|---|---|---|
| 1. | Oshkosh Corp. | 5.2 |
| 2. | Alphabet Inc. | 4.9 |
| 3. | Berkshire Hathaway Inc. | 4.7 |
| 4. | Schneider Electric SE | 4.7 |
| 5. | Medtronic PLC | 4.6 |
| 6. | AstraZeneca PLC ADR | 4.6 |
| 7. | Ross Stores Inc. | 4.3 |
| 8. | Cisco Systems Inc. | 4.1 |
| 9. | Emerson Electric Co. | 4.1 |
| 10. | Heidelberg Cement AG | 4.1 |
| **Total** | | **45.3** |

### Best performers during the quarter[2]

#### Cognizant Technologies up +20%

Shares of Cognizant were strong due to improved execution by management and a rising backlog (+14% YTD). As a company with remote working as a core competency, its productivity levels have performed well during the pandemic. With scope for increased profitability from the prior restructuring efforts, the company should have low teens earnings per share growth which supports further upside for the stock.

#### Thermo Fisher up +20%

Thermo Fisher (TMO) continues to be a beneficiary of COVID-19. In 2020, of its $27B of revenue, we believe $4.5B (17%) will come from COVID-19 with two major items being its gold standard COVID test and the work they do for manufacturing vaccines. This leads to more than 30% earnings per share growth in 2020. We continue to value Thermo Fisher on longer term earnings. TMO's end markets have improved from the pandemic as this has resulted in governments and businesses investing more in life sciences. Since the acquisition of Fisher Scientific in 2006, Thermo Fisher has been a one stop shop for life science tools and solutions which has gained market share organically and inorganically. We believe the way Thermo Fisher has been operating throughout the pandemic will allow for accelerated market share gains. Overall, pre-pandemic we saw them as a ~6% organic top line grower and this has increased to ~8% with even better operating leverage.

### Berkshire Hathaway up +17%

As referenced in our last report, Mr. Buffett and his team seem to be getting their mojo back. During the most recent quarter, the company was a bit more active at deploying its massive and growing cash hoard. As of the last report it was now up to $147B ($61 per class B share). Over the quarter, Berkshire made a sizeable investment in Japanese trading companies and, in recent months, the company has become significantly more active in buying back its own shares.

### Heidelberg Cement up +13%

A significant fiscal spending program on infrastructure was announced midway thought the quarter by European Union policy makers. As well, the market continues to await a similar announcement in the U.S. which will provide the much hoped fiscal stimulus program. Heidelberg Cement, the most geographically diversified of the global cement companies, stands very well positioned to benefit from infrastructure spending globally and the market bid the stock up accordingly.

## Worst performers during the quarter[2]

### Cisco Systems down -17%

Shares of Cisco Systems declined during the quarter as the company's short-term guidance fell short of investor expectations. Sales of routers and switches are being impacted near term by the disruption brought on by the pandemic and a pause in spending by clients. Over the medium term a need for increased network capacity and continued growth in security applications will increase revenue. Shares of the global leader in networking equipment are attractive, trading at 12x earnings with a near 4% dividend yield.

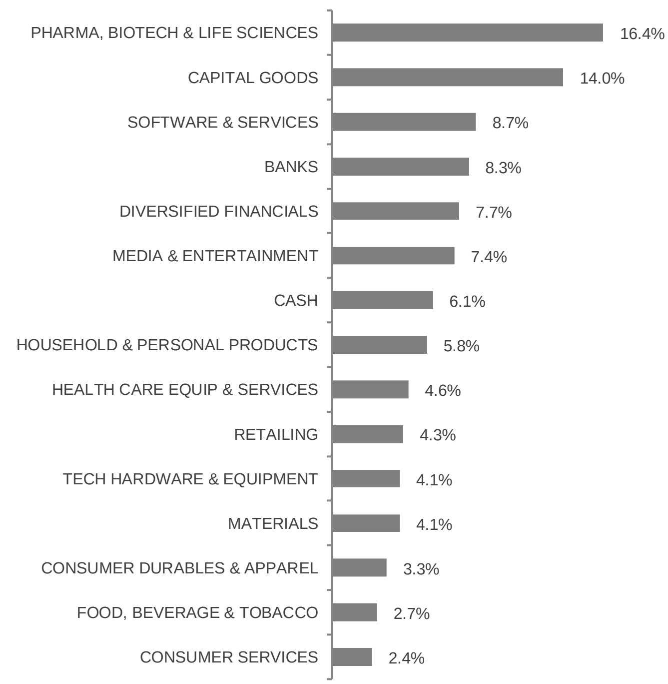
### AbbVie down -11%

AbbVie faded in the quarter on no change to fundamentals after being one of the best performers last quarter. The performance year to date is in line with the broader index. We continue to like AbbVie for its hidden growth on the other side of the Humira patent cliff in 2023. We are comfortable with the loss of exclusivity of its largest drug as next generation treatments (Skyrizi and Rinvoq) are on pace to replace most, if not all, of the Humira revenue by the middle of the decade. AbbVie's portfolio ex-Humira is strong and set to grow by double digits over the next decade which will lead to a re-rating from its current 7x price to earnings multiple. In the meantime, we collect a 5.5% dividend yield while we wait for the thesis to play out.

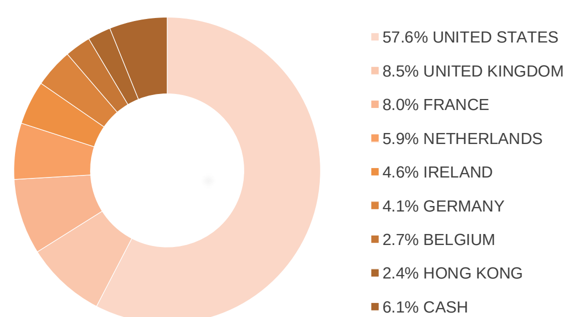
### GlaxoSmithKline down -6%

After initiating a position in GlaxoSmithKline in the quarter, the stock underperformed the broader market as well as the Galibier Global Equity Pool. Perhaps we initiated our position a few months early, but we see many near and longer-term catalysts such as the come back of deferred discretionary vaccines (e.g. Shingles), a strong flu vaccine season, the consumer health spin-off and gains from its increased R&D investments.

**Global Equity Pool Industry Split (Sept 30/2020)**




**Global Equity Pool Geographic Split (Sept 30/2020)**



**Buys & Sells**

During the quarter, we added two new names to the portfolio: GlaxoSmithKline and Raytheon Technologies. In addition, we added to Oshkosh, Cisco Systems and Ross Stores.

We reduced our positions in numerous names including Visa, Walt Disney, Colgate-Palmolive, Thermo Fisher Scientific and AstraZeneca among others.

As a result of these transactions, the cash position decreased to 6.1% from 13.0% at the end of the prior quarter.

**New Buys:**

GLAXOSMITHKLINE PLC ADR

GlaxoSmithKline (GSK) is a leading pharmaceutical company that has long been in Galibier's investable universe due to its predictable cash flows from patent protected products. We are excited about the company's evolution over the past few years under new leadership who raised pharmaceutical R&D nearly 50% while refocusing on the immune system and genetics which improves the company's long-term growth outlook. GSK has the third largest global vaccine business which is a consolidated market that grows through patent cliffs as vaccines never go generic. In addition, GSK has the world's largest consumer health business giving them scale in an industry with great pricing power. Our view of GSK's Intrinsic Value is based on a sum of the parts analysis which shows the company is significantly undervalued. The company is seeking to crystallize this hidden value by spinning out the consumer health business in August 2022. We are receiving a 5% dividend yield while we wait for the re-rating.

RAYTHEON TECHNOLOGIES CORP.

Raytheon Technologies (RTX) is a leading commercial aerospace supplier and defence company that stems from the recent merger between the aerospace businesses of United Technologies (Pratt & Whitney, Collins Aerospace) and the leading U.S. missile provider Raytheon. RTX's defense business, consisting mainly of missiles and cybersecurity services, is characterized by high barriers to entry and multi-year projects supporting what is already an all-time high backlog of $73.1 billion. The company is considered an ever growing by-partisan national defense priority regardless of who leads the White House. For these reasons, we see stable and growing free cash flow generation from this side of the business. On the other hand, RTX's commercial aerospace business has undeniably been hit hard by the coronavirus crisis. Still, at a stock price below $60 per share, the sum-of-the-parts analysis implies a single digit free cash flow multiple on a conservative outlook 2 years out from today. In addition, the merger is anticipated to generate net cost synergies of $500 million, or $0.35 per share, over the next 5 years which, together with the stable free cash flow dynamics of the defense business, make the case for an attractive margin of safety at the current quote and a free option on a complete recovery in air travel over a medium-term outlook.

**Global Equity Pool Dynamics (Sept 30/2020)**

| Measure | Global Pool | MSCI World |
|---|---|---|
| Fwd 12M P/E | 19.4x | 21.3x |
| Dividend Yield | 1.8% | 2.1% |
| Number of Names | 26 | 1,607 |
| Active Share[3] | 93% | - |

Source: *Galibier Capital Management Ltd, Bloomberg, MSCI Inc.*

Notes:

1. *When evaluating the performance of any investment, it is important to compare it against an appropriate benchmark in order to make an informed assessment of the account's performance based on its investment strategy. Galibier utilizes broad market indexes such as the S&P/TSX Composite index, the MSCI World Index and the S&P 500 index for this purpose as they are the most well-known indices and are most likely to resemble the investment strategy of the accounts. It is important to note that benchmarks do not include operating charges and transaction charges as well as other expenses related to the account's investments, which may affect its performance.*

2. *Performance % represents the percentage return to the pool during the most recent quarter and includes the impact of market price changes, buys, sells, and dividends (if any).*

3. *Active share: a measure of the percentage of stock holdings in a portfolio that differ from the benchmark index. Data source: Bloomberg.*